

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 /092 W

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P 142301Z APR 77

FM AMCONSUL QUEBEC

TO SECSTATE WASHDC PRIORITY 959

INFO AMEMBASSY OTTAWA

AMCONSUL MONTREAL

AMCONSUL HALIFAX

AMCONSUL TORONTO

AMCONSUL WINNIPEG

AMCONSUL CALGARY

AMCONSUL VANCOUVER

UNCLAS SECTION 1 OF 2 QUEBEC 0154

E.O. 11652: N/A

TAGS: EFIN, CA

SUBJECT: QUEBEC BUDGET AND PUBLIC SECTOR FINANCING

REF: QUEBEC 0153

1. SUMMARY. NEED FOR QUEBEC TO REDUCE BORROWING WHICH PRODUCED
AUSTERITY BUDGET DESPITE HIGH UNEMPLOYMENT (REFTTEL) BLAMED BY
GOQ ON HIGH RATE OF SPENDING AND BORROWING SINCE 1975, NOT ON ANY
LACK OF INVESTOR CONFIDENCE BY LENDERS AS A RESULT OF PQ VICTORY.
SURVEYS SHOWING HIGHER RATES OF INVESTMENT IN QUEBEC THIS YEAR,
SUCCESSFUL BORROWINGS SINCE NOVEMBER ELECTION, AND RENEWED RATINGS
OF QUEBEC BY U.S. BOND RATING FIRMS, SEEN AS EVIDENCE THAT
INVESTOR/LENDER CONFIDENCE IS STRONG AND GROWING. TOTAL GROSS
PUBLIC SECTOR BORROWING IN FY 1977-78 IS EXPECTED TO BE SLIGHTLY
OVER \$3 BILLION, OR ABOUT SIX PERCENT OF GROSS PROVINCIAL PRODUCT
(GPP), DOWN FROM ABOUT 12 PERCENT OF GPP THE PREVIOUS YEAR. END
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SUMMARY.

2. IN BUDGET SPEECH, FINANCE MINISTER PARIZEAU BLAMED NEED TO
CUTBACK QUEBEC'S BORROWING ON SHARP INCREASES IN INDEBTEDNESS SINCE
1975. PAST BORROWING, HE SAID, "CONTRIBUTED TO SUCH AN INCREASE
IN THE HOLDINGS OF QUEBEC BONDS BY A GREAT NUMBER OF FINANCIAL
INSTITUTIONS THAT ANY PLANS TO CONTINUE A HIGH LEVEL OF BORROWING

ARE COMPROMISED FOR SOME YEARS TO COME."

3. ANY SUGGESTION THAT THE NEED FOR LESS BORROWING WAS RELATED TO POLITICAL UNCERTAINTIES GENERATED BY PQ ELECTION VICTORY IN NOVEMBER OR PREMIER LEVESQUE'S SPEECH IN NEW YORK WERE REJECTED. PARIZEAU SAID, "OVER ALMOST FIVE MONTHS NOW, MENTION HAS BEEN MADE OF THE DANGER INHERENT IN THE UNCERTAINTY SUPPOSEDLY CREATED BY THE GOVERNMENT'S POLITICAL OBJECTIVES. IT NOW SEEMS THAT THE FRANKNESS,

EVEN THE SINCERITY WITH WHICH THE SUBJECT OF QUEBEC'S INDEPENDENCE...WAS BROACHED, HELPED TO IMPROVE RELATIONS BETWEEN THE GOVERNMENT AND FINANCIAL CIRCLES CONSIDERABLY. APPREHENSIONS... ABOUT RADICAL, FAR REACHING CONTROLS OVER BUSINESS HAVE ALSO BEEN DISSIPATED."

4. PARIZEAU WAS OPTOMISTIC ABOUT MARKET REACTIONS TO QUEBEC BORROWING.

HE ACKNOWLEDGED A SELL-OFF OF QUEBEC SAVINGS BONDS AFTER THE ELECTION AND WIDER GAPS BETWEEN THE RATES OF RETURN ON QUEBEC AND ONTARIO BONDS, BUT, HE ASSERTED, THE SITUATION HAD IMPROVED, AS CONFIRMED BY THE RENEWED CREDIT RATING OF QUEBEC AND HYDRO-QUEBEC BY A U.S. BOND RATING AGENCY AND THE SUCCESS OF THE (MODEST) BORROWINGS SINCE THE ELECTION.

5. THE LEVEL OF DIRECT PROVINCIAL GOVERNMENT DEBT AT THE END OF FY 1976-77 WAS ABOUT \$6.0 BILLION. AT THE SAME TIME, THE LEVEL OF ADDITIONAL DEBT GUARANTEED BY THE PROVINCIAL GOVERNMENT WAS \$7.8 BILLION. MOST OF THIS GUARANTEED DEBT, HOWEVER, UNCLASSIFIED

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IS FOR HYDRO-QUEBEC, WHICH IS WELL ABLE TO CARRY ITS OWN DEBT INDEPENDENTLY. DIRECT AND GUARANTEED DEBT TOGETHER TOTAL ABOUT 30 PERCENT OF GPP. ABOUT 25 PERCENT OF GOVERNMENT DEBT IS IN FOREIGN CURRENCIES (MOSTLY U.S. DOLLARS) AS IS ABOUT TWO-THIRDS OF THE HYDRO-QUEBEC DEBT.

7. COPIES OF BUDGET SPEECH AND SUPPLEMENTARY INFORMATION ARE BEING SENT TO WASHINGTON ENDUSERS, INCLUDING EUR/CAN, TREASURY, AND FRB.

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FM AMCONSUL QUEBEC
TO SECSTATE WASHDC PRIORITY 960
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AMCONSUL MONTREAL
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8. TABLES. ALL FIGURES ARE IN MILLIONS OF CANADIAN DOLLARS,
UNLESS OTHERWISE NOTED.

I. TOTAL LONG TERM QUEBEC PUBLIC SECTOR BORROWING
CALENDAR YEARS

	1974	1975	1976	1977(1)	
GOVERNMENT	586	924	1,341	900	
HYDRO-QUEBEC	683	1,042	1,675	1,000	
OTHER GOVERNMENT					
CORPORATIONS	32	127	1,156(2)	(NS)	
MUNICIPALITIES	337	859	743	(NS)	
SCHOOL SYSTEMS	298	305	300	(NS)	
HOSPITALS	25	46	45	(NS)	
TOTAL GROSS					
BORROWING	1,961	3,303	5,260	3,000 PLUS	
PERCENT OF GPP(3)	5	8	12	6	

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KQL FY 1977-78, FORECAST IN BUDGET SPEECH
(2) INCLUDES SHARE OF \$997 MILLION OLYMPIC BORROWING AND
\$400 MILLION BORROWING FOR SIDBEC
(3) APPROXIMATE PERCENT OF QUEBEC GROSS PROVINCIAL PRODUCT
(NS) - NOT SPECIFIED IN BUDGET MESSAGE

II. QUEBEC GOVERNMENT BORROWING FY 1976-77
FOREIGN CURRENCY C\$ EQUIVALENT

US DOLLAR	200	195.6
DM	150	63.2
TOTAL FOREIGN		258.8
CANADIAN DOLLAR		1,098.9
TOTAL BORROWING		1,357.7

III. HYDRO-QUEBEC BORROWING IN 1976 FISCAL YEAR

FOREIGN CURRENCY		C\$ EQUIVALENT
US DOLLAR	1,300	1,285.4
EURODOLLAR	125	121.6
SWISS FRANC	380	156.1
TOTAL FOREIGN		1,563.1
CANADIAN DOLLAR		155.0
TOTAL BORROWING		1,718.1

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